

sampling standards do you use?” (below) for an explanation of our minimum number of errors and confidence level requirements. If this analysis shows that we did not examine enough transactions, our auditor may decide to expand the sample and will discuss with you how many additional items will need to be selected.

### Step 7: Computing error rate and total category error

In nearly all audits that use statistical sampling, we determine the amount of error in a category by using the results of the sampling. We take the error rate from the sample and apply that to the total dollar value of the population sampled to determine the total error amount.

For example, the sample of your claimed nontaxable sales for resale might show that

- 3.75 percent of those sales were actually taxable sales, and
- You claimed a deduction for sales for resale during the audit period totaling \$1,550,000.

We would multiply \$1,550,000 by 3.75 percent to determine the amount of sales for resale that should have been reported as taxable during the audit period. In this example, the additional taxable sales would be \$58,125.

### What statistical sampling standards do you use?

#### Minimum errors

When a sample results in only one or two errors, the auditor must evaluate whether these errors were truly random. Such a low error rate may indicate that the sample is not representative. Our audit policy is that for any category sampled, there must be at least three errors. If we find fewer than three errors, our auditor may decide to expand the sample, examine the problem area separately, or choose a different way to determine the error rate.

### Confidence interval

“Confidence interval” is one statistical measurement we use to measure the sampling error. It is the difference between the amount calculated in the sample and the error we would expect if we had examined all of the transactions. We compute our confidence interval using an 80 percent confidence level.

### For more information

A complete explanation of our statistical sampling procedures is too lengthy for this publication, however, if you have any questions about the sampling methods used in your audit, please discuss them with our auditor or CAS.

You may also want to download or review Audit Manual chapter 13, “*Statistical Sampling*,” at [www.boe.ca.gov](http://www.boe.ca.gov). This chapter explains our sampling practices and standards in detail. If you have any questions about your computer-assisted audit, contact:

BOE AUDITOR	PHONE
BOE COMPUTER AUDIT SPECIALIST	PHONE

For general information regarding audits, please see our publication 76, *Audits*. You may obtain one from your auditor, download or order a copy from our website, or request a copy by calling our Information Center at 800-400-7115 (TDD/TTY: 800-735-2929). Staff are available to help you weekdays from 8 a.m. to 5 p.m. (Pacific time), except state holidays.

**Taxpayers’ Rights Advocate:** Call toll-free for help with disagreements you have been unable to resolve through normal channels: 888-324-2798

**To contact your Board Member:** See [www.boe.ca.gov/members/board.htm](http://www.boe.ca.gov/members/board.htm)

PUBLICATION 147

MARCH 2007

# WHAT TO EXPECT IN A COMPUTER-ASSISTED AUDIT

STATE BOARD OF EQUALIZATION

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## Introduction

The goal of Board of Equalization audits is to determine whether a business has reported the correct amount of tax during the audit period. To do that, we look at your books and records.

Since you keep your records in electronic form, we can more readily assess the accuracy of your tax reporting by examining those electronic records. We call this a “computer-assisted audit” (CAA). Businesses usually find this method less time-consuming and more convenient than a conventional audit. Among other things, it dramatically reduces the volume of paper documents required.

We are providing this brochure to help you understand what to expect as we review your electronic records. If you have questions about the computer-assisted audit process at any time, be sure to ask the computer audit specialist (CAS) whose name and phone number are written on the back of this brochure or the auditor conducting your audit.

### What is a computer-assisted audit?

In a computer-assisted audit, we examine your electronic records in addition to some of your paper records. You will download data that we will analyze using specialized software. We will provide guidance and work with your information systems staff to make sure they download the data in a format we can use.

### What will the auditor need to know about my electronic records?

Before starting any audit, our auditor or CAS needs to understand your business operations and record-keeping procedures. For a computer-assisted audit, the auditor will ask

- What electronic records do you have? What format are these records stored in?
- What periods are the records available for?

- What internal controls are in place to support your tax accrual system?
- Have you implemented or changed accounting systems during the audit period?
- Do you have records of individual sales and purchases?

### How do you keep my records confidential?

You are protected by the state’s confidentiality laws, which generally prevent us from disclosing any of the information or records we obtain in your audit. In addition, before you provide copies of electronic business records, you and our auditor should agree on the following:

- The format of the records,
- The security measures we will use to protect the confidentiality of your records, and
- What we will do with your electronic records at the end of your audit.

### What are the steps in a computer-assisted audit?

#### Step 1: Discussing your records at the audit meeting

If after the initial discussion with our auditor about your business operations, we decide that a computer-assisted audit would be beneficial, our auditor and a CAS will meet with you. They need to fully understand how you keep your records and determine the most efficient way to sample them. We recommend that you have your data processing, information systems, and records management staff attend this meeting. The CAS who attends the meeting will provide technical support to our auditor. The CAS is a specially trained auditor with expertise in data systems and statistical sampling.

#### Step 2: Reviewing your computer data system

In addition to understanding your accounting records, the auditor and CAS will discuss other

elements of your computer data system. They will ask about

- Any software you use for your general ledger, sales, accounts receivable, sales order, accounts payable, and fixed assets.
- Areas related to e-commerce such as electronic data interchange, procurement cards (credit cards), and electronic funds transfer.
- Availability of physical records you have scanned to create electronic files.

#### Step 3: Evaluating data integrity

The next step is for the auditor to evaluate the integrity of your data. The auditor will reconcile the electronic data you provide with your books and records to test its completeness and accuracy.

#### Step 4: Developing a sampling plan

Like audits that use paper records, computer-assisted audits look at a sample of your transactions instead of every individual sale and purchase. Before we sample your records, our auditor will work with you to develop a sample plan. That plan will be documented on an *Audit Sampling Plan* (form BOE-472).

Please note that the information and methods described in the *Audit Sampling Plan* may change during the audit. We use the form to establish the most effective and efficient sampling plan. As the audit progresses, we will continually evaluate the plan and change it if necessary. The auditor or CAS will discuss any change with you.

#### Step 5: Selecting the sample

Using the method described in the *Audit Sampling Plan*, our auditor or CAS will select the sample transactions for review. In many cases, we can significantly reduce the number of original documents you must locate.

#### Step 6: Evaluating the sample

After reviewing the sampled transactions, our auditor will evaluate the results. See “What statistical